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Ecuador

Coffee Annual

Coffee Production in Ecuador Exports Imports 2013

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Report Highlights:

Ecuador's coffee production is expected to decrease slightly in MY 2013/14 and reach 575,000 bags (60 kg per bag) of green beans. Exports of soluble coffee are expected to increase. Because Ecuador mainly industrializes imported coffee beans into solubles, imports of robusta beans are also expected to increase. Ecuador is expected to import as much as 1,400,000 bags of Robusta beans in MY 2013/14 and export approximately 1,750,000 bags.

Executive Summary:

Coffee production for Marketing Year (MY) 2013/14 (April/March) will decrease to about 575,000 60-Kg. bags. The decrease is due to heavy rains at the beginning of this year's crop season and a generalized trend of declining yields. Since 2005, Ecuador has renovated or added almost 21,000 hectares (ha) of coffee but has switched production of at least 20,000 ha. In essence, harvested area has remained the same and production has declined as older plantations grow less.

Consumption of roasted coffee has increased recently thanks to specialized coffee retail outlets and aggressive advertising to promote coffee. Domestic consumption is forecast at 240,000 bags in MY 2013/14, 85 percent of which is consumed as soluble or instant coffee. Coffee exports for MY 2013/14 are forecast at a record 1,750,000 bags, 67 percent of which are soluble and instant coffee products. To meet the industry's demand of Robusta coffee beans, in MY 2013/14 Ecuador will import 1.405 million bags of Robusta beans, most of which will be used for industrialization and re-export.

Commodities:

Coffee, Green

Production:

Production methods are generally traditional. Most bean picking is done by hand, coffee farmers usually don't use fertilizer, and rainfall is relied upon instead of modern irrigation systems. Eighty percent of Ecuador's coffee is produced this way, with average yields of 300 kg per ha. Twenty percent of coffee plantations are managed using technical or semi-technical approaches. These plantations have average yields of about 700 kg per ha.

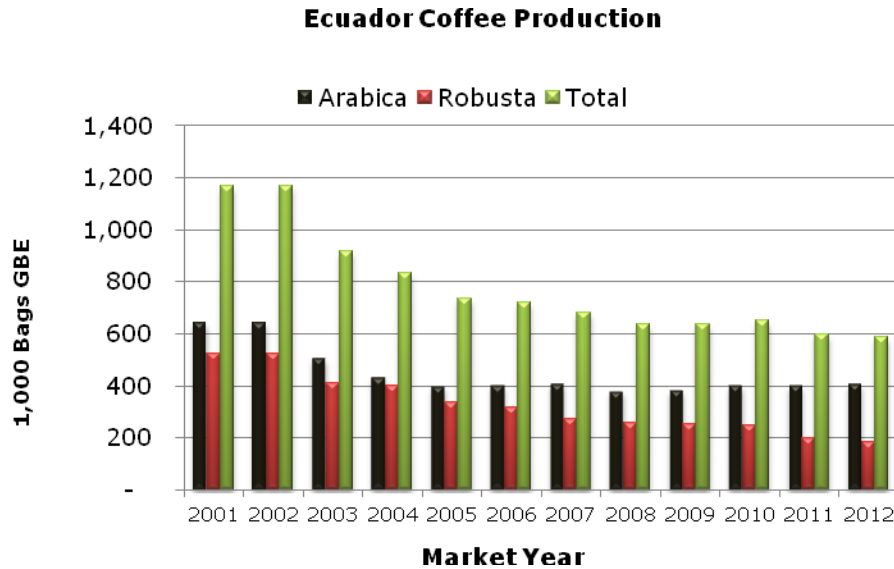
Coffee production in Ecuador will decrease to about 575,000 60-kg bags green bean equivalent (GBE) on 149,000 harvested hectares (ha) in MY 2013/14. The expected decline is due to a heavy rainy season that may affect yields and an overall decline in domestic production due to declining land productivity, accompanied by very limited efforts to rehabilitate existing plantations.

The Government of Ecuador's (GoE) efforts to promote coffee production in rural areas as a tool for economic development are still small compared to the needs of farmers. The GoE's official mandate is to renovate 50,000 ha of coffee. There is a new structure that aims at making this possible that combines the efforts of the Ministry of Agriculture with those of Ecuador's National Coffee Council (COFENAC), a public-private entity that collects fees on coffee exports and represents Ecuador at the International Coffee Organization.

Despite efforts by the GoE and foreign assistance in the past, an estimated 30 percent or more of existing plantations are past peak production and need to be replanted with new varieties. Volatile international prices in the past have discouraged investments in new trees. However, steady and climbing international prices brought some optimism to farmers starting in 2005. There is an urgent need to increase nursing facilities that can provide high-quality plants to farmers and to make credit available to farmers so they can invest.

Ecuador has approximately 199,000 ha planted with 149,000 ha expected to be harvested in MY 2013/14. A large portion (60 percent) of this area is also shared with other crops. Arabica coffee represents 70 percent of the total production and will reach 400,000 bags in MY 2013/14. Robusta production represents 30 percent and MY 2013/14 production is forecast at 175,000 bags. Arabica productivity has increased as farmers improve practices in response to high world prices.

Prices were lower in 2012 compared to 2011. Between 2010 and 2011, the average price of Arabica in Ecuador decreased 19 percent from \$305 to \$247 per 60-kg bag while Robusta prices remained flat on average for the year 2012 at around \$128 per 60-kg bag. Since Ecuador's production and consumption are relatively small in the global market, high domestic prices, especially for Robusta coffee, respond mainly to unsatisfied supply for the local instant coffee industry in Ecuador and in Colombia.



About 53 percent of coffee-producing areas are located in Ecuador's coastal provinces (for example: Manabí, 35 percent), 22 percent in the Sierra (Loja, 15 percent), and 25 percent in the Amazon (Orellana, 10 percent; Sucumbios, 9 percent), and 1 percent in Galapagos. Most of the area planted with Robusta is located in the Amazonian provinces.

Consumption

Domestic coffee use is forecast at 240,000 bags in MY 2013/14. The expected increase is the result of population and income growth. Ecuadorians consume more soluble coffee than roasted and ground coffee. This consumption pattern is explained by changes in consumer saving and ease-of-use habits over the past 30 years. Overall, there has been a lack of coffee drinking culture. This has started to change with the presence of Colombia's coffee franchise Juan Valdez and several other local outlets including Coffee Tree, Sweet & Coffee. Sweet & Coffee has been operating in Ecuador for over ten years while Juan Valdez began operations in 2008. Coffee Tree is the latest entrant to the market. In addition, local firm Cafe Velez has successfully entered the roasted coffee niche market by using home delivery service and also distribution through Ecuador's major deli and supermarket chains. Nevertheless, instant coffee has remained popular in Ecuador and several national and imported brands are represented in the market. A single Ecuadorian company, El Café (Grupo Noboa) has over 50 percent of the instant coffee market. This company is reportedly expanding its processing capacity due to increased demand in the international market.

The domestic industry produces large quantities of spray dry (instant coffee powder) and freeze dry (lyophilized) and agglomerated for both domestic consumption and for export. The local industry has an installed processing capacity of 1.3 million bags per year, and coffee imports are necessary to meet this demand. Ecuador imports, in small amounts, soluble and coffee essences from Colombia, Brazil and other countries.

Trade

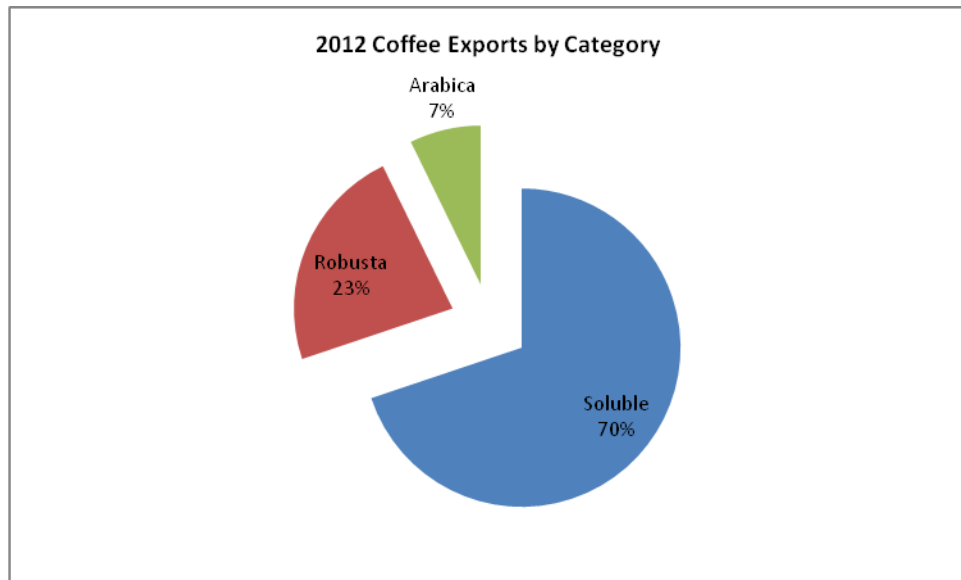
Exports of coffee and coffee products are forecast to be approximately 1.75 million bags in MY 2013/14 after breaking a record in MY 2012/13 with 1,677 million bags. The increase in exports will be driven by soluble and industrialized coffee. Most of these trade imports/exports are not recorded in official statistics as they correspond to imported coffee that is re-exported as soluble coffee. The increase in exports reflects the Government of Ecuador's decision through its Committee on Foreign Trade (COMEX) to allow more coffee imports into Ecuador for processing and re-exporting. It is estimated that 1.11 million bags entered Ecuador in MY 2012/13 and that 1.2 million bags will enter in MY 2013/14. Exports of Arabica coffee beans experienced a dramatic decrease and reached slightly more than 107,000 bags in MY 2012/13 as farmers preferred to sell their production in the domestic market as international prices decreased.

Despite lower world prices for Robusta in comparison to Arabica, Robusta receives a higher price than the international price in the Andean regional market, where it is used to make instant coffee in neighboring countries. Ecuador primarily exports Robusta beans to Colombia. Since consumers pay a premium price for Colombian coffee, its industries are willing to pay higher prices for Robusta beans than the Ecuadorian industry pays locally. For this reason, Ecuador exports Robusta beans to be marketed as Colombian coffee. This is also one of the reasons why the local soluble industry imports large quantities of Robusta, primarily from Vietnam, that enters Ecuador under a special import regime. These beans are converted into soluble coffee and exported. The local soluble coffee industry has gained local and international markets for soluble coffee products, especially spray and freeze dried. Ecuadorian companies are thought to have a comparative advantage with respect to their peers in other countries.

Imports of soluble coffee were stable in MY 2012/13.

Export Trade Matrix

Country	Ecuador	
Commodity	Coffee, Green, in 60Kg Bags	
Destination	2011	2012
U.S.	78,157	51,550
Germany	301,002	304,510
Poland	216,928	293,427
Russia	219,811	215,150
U.K.	36,646	100,476
Colombia	499,513	415,686
Other countries	194,281	190,146
Total	1,546,338	1,570,944



Policy

A non-profit public-private institution, Ecuador's COFENAC, has dictated Ecuador's coffee policy since 1995. Its existence arises from Ecuador's Special Law for the Coffee Sector, Official Record 756, on March 20, 1995. This law provided a legal framework to promote and organize a modern coffee industry, deal with the fluctuations of international coffee prices, and provide loans to coffee producers at preferential interest rates for the rehabilitation, renovation, and maintenance of coffee plantations. COFENAC's operations are financed by coffee bean exporters (processed coffee exporters are exempt) who pay fee equivalent to 2 percent of the FOB value of exports.

COFENAC's future has been in doubt since Ecuador's adopted a new constitution in 2008. Ecuador's Constitution (article 2987) establishes that only public agencies can benefit from fees and special contributions established by public law. The fees that COFENAC collects can be interpreted as a tax on exports of coffee. Since 2010, COFENAC no longer authorizes imports of coffee. This authority has been transferred to COMEX. Nevertheless, exporters have continued to pay the 2 percent fees because despite limitations COFENAC's achievements are considered highly relevant to the sector. Thus, despite legal challenges, COFENAC continues to operate in coordination with Ecuador's Ministry of Agriculture while its long-term legal viability is clarified.

COFENAC's actions have aimed at providing access to better coffee seedlings in order to improve quality and increase yields. COFENAC is currently focusing its research efforts on three areas: assessment of new coffee varieties, good agricultural practices, and post-harvest quality improvement.

Since the creation of COFENAC, its membership, which includes producers and government officials, was responsible for approving temporary imports of coffee for transformation into soluble coffee which is re-exported after the process. Although this is no longer the case, COFENAC is still the authorized entity by The International Coffee Organization (ICO) to issue the certificates of origin required for exporting.

COFENAC has included in its annual plan of activities for 2013 the establishment of almost 6,000 ha of new plantations, technical assistance to improve production in about 12,100 has, and the renovation of 6,600 ha of old plantations. At the time of writing this report, the Ministry of Agriculture has announced a long-term plan called "Reactivation of Ecuador's Coffee Cultivation" for about \$70 million aimed at renovating 135,000 ha of old coffee plantations.

Since 2007, the private sector has become pivotal in promoting coffee consumption and higher quality levels through the annual coffee tasting contest "Taza Dorada" (Golden Cup). The contest is organized by Ecuador's Association of Coffee Exporters (ANECAFE) with the goal of identifying the best Ecuadorian coffee during a national competitive event. Small producers, producer organizations and exporters gather yearly and submit to a panel of international judges. The event has received assistance from USAID and USDA in the past.

Production, Supply and Demand Data Statistics:

Coffee, Green Ecuador	2011/2012		2012/2013		2013/2014	
	Market Year Begin: Apr 2011		Market Year Begin: Apr 2012		Market Year Begin: Apr 2013	
	USDA Official	New Post	USDA Official	New Post	USDA Official	New Post
Area Planted	199	199	199	199		199
Area Harvested	169	169	149	149		149
Bearing Trees	156	156	137	137		132
Non-Bearing Trees	29	29	25	25		30
Total Tree Population	185	185	162	162		162
Beginning Stocks	143	143	137	137		169
Arabica Production	400	400	415	405		400
Robusta Production	200	200	190	185		175
Other Production	0	0	0	0		0
Total Production	600	600	605	590		575
Bean Imports	1,150	1,150	1,400	1,350		1,400
Roast & Ground Imports	0	0	1	1		2
Soluble Imports	3	3	2	2		3
Total Imports	1,153	1,153	1,403	1,353		1,405
Total Supply	1,896	1,896	2,145	2,080		2,149
Bean Exports	575	575	525	575		575
Rst-Grnd Exp.	0	0	0	0		0
Soluble Exports	946	946	1,275	1,102		1,175
Total Exports	1,521	1,521	1,800	1,677		1,750
Rst,Ground Dom. Consum	25	25	30	35		37
Soluble Dom. Cons.	213	213	193	199		203
Domestic Use	238	238	223	234		240
Ending Stocks	137	137	122	169		159
Total Distribution	1,896	1,896	2,145	2,080		2,149

1000 HA, MILLION TREES, 1000 60 KG BAGS